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C O N F I D E N T I A L SECTION 01 OF 02 WARSAW 000980

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STATE FOR EUR/NCE AND EB/ESC
EUR/NCE FOR DKOSTELANCIK AND MSESSUMS
EB/ESC FOR SGALLOGLY, RGARVERICK, AND JLEWANDOWSKI
DOE FOR LEKIMOFF
USDOC FOR 4232/ITA/MAC/EUR/JBURGESS, JKIMBALL, MWILSON
TREASURY FOR MGAERTNER

E.O. 12958: DECL: 05/25/2106

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SUBJECT: POLAND'S ORLEN ANXIOUS FOR COURT DECISION IT CAN
BUY LITHUANIAN REFINERY

REF: VILNIUS 459

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Classified By: Economic Counselor Richard Rorvig, reason 1.4 b and d

11. (C) Summary: PKN Orlen's Wojciech Wroblewski, told us that PKN Orlen is waiting for U.S. court approval of the sale by YUKOS of its controlling stake in the Mazeikiu refinery for the purchase to go through. PKN Orlen aggressively pursued the sale both as a strategic asset and as a way to block LukOil's expansion into the European market. Orlen is not concerned about adequate oil supply as it is already Russia's largest consumer and the terminal at Butinge gives it flexibility of supply in the event of a pipeline disruption. Orlen is also opening an office in Kazakhstan and hopes to purchase assets there by year-end. End Summary.

Yes - Orlen will buy Mazeikiu If,...

12. (C) Wojciech Wroblewski, PKN Orlen's Senior Advisor on Strategy, confirmed to EconOff that PKN Orlen, Poland's state-owned oil company, has received all Lithuanian government approvals, as well as YUKOS's approval, to purchase the Mazeikiu refinery in Lithuania. He would not confirm the purchase price. He noted, however, that Orlen is anxiously awaiting a U.S. court decision, expected on May 25, which could lift the ban on the sale of YUKOS's shares in the refinery, allowing the transaction to proceed.

Mazeikiu a Strategic Asset

13. (C) Orlen's purchase of the Mazeikiu refinery is a strategic decision, explained Wroblewski. First, it adds to Orlen's refinery capacity. With refinery capacity at a premium, and only two refineries for sale in Europe, winning the bid is critical for Orlen's continued growth. Mazeikiu's close proximity to Poland is attractive since it will allow Orlen to expand its operations in the neighborhood. Equally important, if Orlen purchases the refinery, LukOil cannot. Orlen is not looking forward to competing with LukOil in Eastern Europe if and when LukOil succeeds in purchasing assets in the region.

Orlen Now Russia's Biggest Export Market

¶4. (C) Stability of oil supply from Russia is not a major concern for Orlen. Wroblewski noted that Orlen is currently Russia's largest purchaser of oil, accounting for 10 percent of total Russian oil exports. Purchasing the Mazeikiu refinery will add to Orlen's purchasing power - it will purchase 32 million tons of oil per year after the sale is finalized. Orlen evaluated the risks of possible Russian displeasure at losing the sale, but believes that commercial interests will prevail. In addition, the existence of the Butinge terminal, which is part of the sale, will allow Orlen to purchase oil from other sources if the pipeline supply is disrupted.

Operations Expanding Elsewhere

¶5. (C) PKN Orlen is continuing to expand its operations in the region in its quest to become a more important player in the European oil industry. Orlen officials also visited the refineries for sale in Serbia and Slovenia. Wroblewski noted that LukOil officials were at the Slovenian refinery the week before, and offered to purchase the assets, which had not operated in the previous eight years. Wroblewski's analysis was that the refinery was worthless and that Orlen is not interested. Orlen is also opening an office in Astana, Kazakhstan this year and hopes to purchase a share in an existing production sharing agreement (psa) or a new psa to gain more on-shore experience and increase reserves.

Comment

¶6. (C) PKN Orlen's purchase of the Mazeikiu refinery would be a strategic win for the Polish oil company in its efforts to solidify and expand its position in the region. If and when the sale occurs, if Orlen and Polish government officials can contain their glee at the purchase at the

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expense of Russian companies, it could also help improve commercial relations between Poland and Russia.
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